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INFO RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHBO/AMEMBASSY BOGOTA 3509
RUEHCV/AMEMBASSY CARACAS 9570
RUEHLP/AMEMBASSY LA PAZ JUN QUITO 0435
RUEHSG/AMEMBASSY SANTIAGO 0617
RUEHBU/AMEMBASSY BUENOS AIRES 2449

UNCLAS LIMA 002230

SIPDIS

STATE FOR WHA/AND, WHA/EPSC AND EB/IFD/OMA
STATE PASS USTR (BHARMAN)
COMMERCE FOR 4331/MAC/WH/MCAMERON
DEPT PASS TO INT/USGS/RESTON FOR DMENZIE/AGURMENDI

SENSITIVE
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E.O. 12958: N/A
TAGS: [SENV](#) [ECON](#) [EMIN](#) [EINV](#) [ETRD](#) [SOCI](#) [PGOV](#) [PE](#)
SUBJECT: GOP APPROVES DEFERMENT DOE RUN/LA OROYA CLEANUP
PLAN

REF: LIMA 953

¶1. (SBU) Summary: On May 29, the Ministry of Energy and Mines (MEM) granted final approval, but with conditions, to Doe Run Peru's extension request for its sulfur dioxide (SO2) environmental cleanup plan at the La Oroya smelter. Doe Run will have three more years to complete three SO2 treatment plants, but it will have to post a \$28.6 million bond. While Doe Run is not happy with additional financial requirements, the positive decision puts to rest a highly politicized technical request for the U.S. firm.
End Summary.

¶2. (U) On May 29, 2006, Minister of Energy and Mines (MEM) Glodomiro Sanchez approved Doe Run Peru's request to extend the compliance date for meeting sulfur dioxide (SO2) emissions standards at the La Oroya smelter (Reftel). Under the revised Environmental Compliance Plan (PAMA), Doe Run has until October 2009 to complete construction of three new sulfuric acid plants at its La Oroya complex, located 150 kilometers northeast of Lima. According to Doe Run's plans, the first plant -- a refurbished existing facility -- should be completed by end-2006. The other two plants will be new, with refurbishment and construction of one of the new plants already under way. As part of the MEM's resolution, Doe Run Peru will have to post a performance bond of just over \$28.6 million, 20 percent of the estimated project cost.

¶3. (SBU) Doe Run and MEM officials informed the Ambassador and Emboffs that the final MEM decision was the product of lengthy negotiations. The MEM scaled back its remediation requests in light of high cost. Over the past few months, Doe Run responded to 90 MEM "clarifications" to its initial extension request, and 23 additional clarifications to Doe Run's responses. World Bank-affiliated outside experts were able to moderate some of the MEM's additional requests.

¶4. (SBU) The decision imposes financial conditions on Doe Run, however, that may be difficult for the company to meet. Doe Run has to post a 20 percent bond to cover a new reactor (furnace) as well as the acid plants. Doe Run is building the reactor for business efficiency reasons, not as a PAMA environmental requirement. Therefore, the

company has taken the position that the reactor cost should not be a part of the bond. The additional bond cost could force Doe Run to require salary deferment or other labor concessions that would be unpopular; so far the La Oroya labor force and the townspeople who indirectly depend on the Doe Run complex have been fervent supporters of the PAMA extension request, despite NGO criticism. MEM also requires that Doe Run set aside funds at the beginning of a given month to fund construction for that month (as opposed to paying expenses as they accrue). (Note: There appears to be some discrepancy over whether last minute negotiations produced a true meeting of the minds as reflected in the MEM announcement; in any event, Doe Run and the MEM will continue implementation talks that will refine their agreement. End Note.)

¶5. (SBU) Doe Run's application to amend its PAMA referred only to the sulfuric acid plants project, as the other components of its original PAMA remain unchanged. These include meeting local standards on heavy metals emissions by the end of 2006 (particularly lead), water quality, industrial effluents and sewage. (Note: High lead emissions, characteristic of the high-energy smelting process, have been a problem at the La Oroya site since its startup in 1923. Doe Run acquired the complex in 1997, and NGOs have focused on the health effects of lead emissions ever since. End Note.)

¶6. (SBU) The refurbished zinc roasting plant will more efficiently capture sulfur emissions and convert them to sulfuric acid, which can either be more safely disposed of or sold. The two new plants will convert sulfur emissions from copper smelting operations into sulfuric acid. Heavy

metal emissions are already extensively treated.

¶7. (SBU) Comment: While Doe Run is not pleased with the increased financial burdens, the MEM's approval of the PAMA request puts to rest one of Peru's high profile environmental issues. NGO complaints have centered on the perception that Doe Run has not done enough to reduce heavy metal emission. They had urged the MEM to deny the PAMA request for an extension of sulfur treatment plans. Presidential candidate Ollanta Humala has mentioned Doe Run (without seeming to know the details of the PAMA request) as an example of the need for Peru to require foreign mining companies to be more responsible.

¶8. (SBU) Doe Run had been concerned that the intense media focus on Doe Run (including by commentators who may desire to work for the MEM in the next administration) would make MEM Minister Sanchez punt the decision into the next administration. There is a sound logic to granting the PAMA request, as the three-year extension will allow Doe Run to spend more money and build state of the art treatment facilities. The MEM Minister's timing in announcing his decision was probably wise; so far there has been little media reaction to the decision, as the national media is focused on the presidential election on June 4. End Comment.

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